Home Oil Company Limited Annual Report 1971

Home Oil Company Limited Annual Report 1971

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Annual General Meeting

The annual general meeting of shareholders will be held at 11:00 a.m. May 4, 1972 at the head office of the Company in Calgary, Alberta.

The Company publishes a book entitled "Financial and Operating Information for the Use of Security Analysts". This book is available to any shareholder, upon request, from the Director of Public Relations.

ROBERT ARTHUR BROWN, Jr.

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HOME OIL COMPANY LIMITED

The Consolidated Statement of Earnings for the year ended December 31, 1970 which will appear in the Company's annual report is as follows:

	1970	1969
REVENUE		
Operating revenue	$26,283,000	$23,523,000
Investment income	3,725,000	4,186,000
	30,008,000	27,709,000
EXPENSE		
Operating	4,121,000	3,610,000
General and administrative	4,018,000	4,019,000
Depletion	5,540,000	3,209,000
Depreciation	1,965,000	1,818,000
Interest and expense on long term debt	6,128,000	5,872,000
Other interest	1,677,000	1,893,000
	23,449,000	20,421,000
Net earnings before deferred income taxes	6,559,000	7,288,000
DEFERRED INCOME TAXES	2,502,000	2,285,000
NET EARNINGS before extraordinary item	4,057,000	5,003,000
EXTRAORDINARY ITEM		
Gain (loss) on sale of investments – net	1,390,000	(466,000)
NET EARNINGS	$ 5,447,000	$ 4,537,000
EARNINGS PER SHARE (based on average number of shares outstanding)		
Net earnings before extraordinary item	$ .58	$ .73
Extraordinary item	.20	(.07)
NET EARNINGS	$ .78	$ .66

Net cash flow from operations amounted to $14,005,000 or $1.99 per share in 1970 as compared with $12,390,000 or $1.81 per share in 1969.

In December, 1970, the balance of the German Bank Loan was retired from the proceeds of a domestic bank loan and the existing line of credit with a group of West German Banks was terminated.

The Annual Report, which will be mailed at the end of March, will contain audited financial statements together with details of the results of the operations of Home Oil Company Limited for the year 1970.

R.A. Brown, Jr.

Calgary, Alberta
February 15, 1971

R.A. Brown, Jr.
President.

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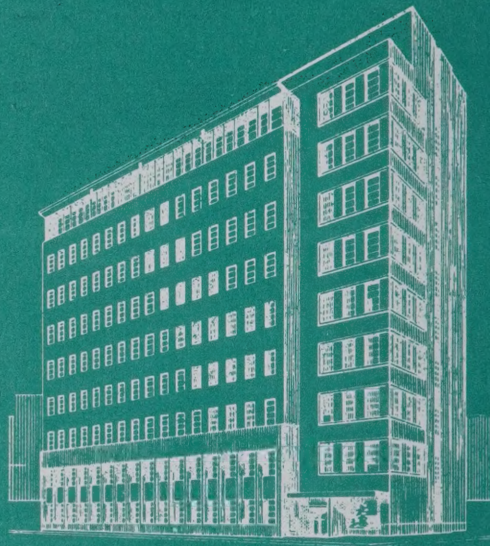

HOME OIL COMPANY LIMITED

Interim Report to the Shareholders

304-6th Ave. S.W.
Calgary 1, Alberta.

February 15, 1971

ROBERT ARTHUR BROWN, Jr.
President
1955 - 1972

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HOME OIL COMPANY LIMITED

TO THE SHAREHOLDERS

Mr. R. A. Brown, Jr., ~~President of Home Oil Company~~ Limited, recently reported three transactions which will have the effect of strengthening the Company's financial position. The funds from these transactions will be used to repay all or substantially all of the Company's short term bank debt currently amounting to approximately $29 million.

- Home has recently sold 100,000 common shares of TransCanada PipeLines Limited for $3,375,000 reducing the Company's holdings in TransCanada to 700,000 shares.

- Foothills Oil and Gas Company, Limited and Coastal Oils Limited, both 99% owned subsidiaries of Home, have sold to The Consumers' Gas Company 275,506 Class B shares of Home. The shares were sold at a price of $33.10 per share being the weighted average at which the shares traded on the Toronto Stock Exchange during the month of October. The proceeds from this transaction amounted to $9.1 million.

- The Company has filed with various securities commissions in Canada a preliminary prospectus covering the sale of Convertible Subordinated Debentures. The issue will be sold publicly through an underwriting group with the amount and terms to be determined at a later date. A final decision to proceed with this issue will not be made unless satisfactory market conditions exist at that time.

Net earnings for the first nine months ending September 30, 1971 amounted to $3,706,000 or 52 cents per share. In the same period in 1970, net earnings before extraordinary items amounted to $1,726,000 or 25 cents per share. Net flow of funds from operations was $11,260,000 or $1.59 per share compared with $8,879,000 or $1.27 per share in 1970.

Gross revenue for the first nine months of 1971 amounted to $25,047,000, an increase of 14.2% over the gross revenue of $21,927,000 recorded for the same period in 1970. Crude oil and production of natural gas liquids increased 12.7% to 20,500 barrels from 18,200 barrels per day in 1970. Natural gas sales amounted to 93.9 million cubic feet per day, 6.3% greater than the 88.4 million cubic feet per day sold during the first nine months of 1970. Capital expenditures for the first nine months amounted to $9,147,000 including exploration expenditures of $6,543,000.

In Swan Hills Unit No. 1, in which Home has an approximate 17% interest, average unit production for the first nine months of 1971 was 55,347 barrels per day, an increase of 12,347 barrels per day over the same period in 1970. In the month of October, 1971, production averaged 64,636 barrels of oil per day and for the last quarter of this year unit production is expected to average 65,000 barrels per day as compared with 44,000 barrels per day during the same period last year. Facilities are under construction with a completion date of mid-1972 to increase the productive capacity of the unit to 100,000 barrels per day.

During the first nine months of 1971, the Company participated or had an interest in the drilling of 45 exploratory wells, of which one was an oil discovery, 7 were gas discoveries, 31 were dry and abandoned, and 6 were still drilling. Of these wells, 35 were drilled in Alberta, 5 in British Columbia, one in Saskatchewan, and 3 in England and the North Sea and one in Italy.

In May, 1971, the Lockton gas field in Yorkshire, England, began production and to September 30, 1971 the Company's 50% share of production amounted to 1.63 billion cubic feet, subject to royalties. Production from this field is somewhat less than originally anticipated due to difficulties encountered in the processing of the gas and recent reservoir pressure tests indicate that the recoverable reserves may be considerably less than the Company originally estimated.

A North Sea consortium in which the Company has a 30% interest submitted applications on August 20, 1971 to the Department of Trade and Industry of the United Kingdom for a number of petroleum production licences in the North Sea. At the same time, the Company applied for a licence in the Celtic Sea west of the Bristol Channel on behalf of a second consortium in which the Company has a 25% interest. To date, no awards have been announced by the Department.

The Company has formed a Norwegian limited partnership with three other firms for the purpose of constructing and operating a semi-submersible drilling vessel. It is estimated that construction will commence early in 1972 and completion is expected by the end of 1973. Construction is estimated to cost approximately $23 million of which the Company's share is 20%. In addition, the Company has contracted for the use of the vessel for a period of one year.

Negotiations are being finalized for the drilling of an exploratory well in an offshore licence off the coast of Malta. Announcement of the commencement date is expected shortly. The Company's interest in this well is 21.25%.

R. A. Brown Jr.
President

Calgary, Alberta
November 15, 1971

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

(Dollars in thousands except per share amounts)

	Nine Months 1971	Nine Months 1970
Net earnings before extraordinary item	$ 3,706	$ 1,726
Per share	$ 0.52	$ 0.25
Extraordinary item	$ —	$ (1,465)
Per share	$ —	$ (0.21)
Net flow of funds from operations	$ 11,260	$ 8,879
Per share	$ 1.59	$ 1.27
Balance Sheet Items at Sept. 30		
Working capital deficiency	$ 30,695	$ 13,973
Investments in other companies	$ 80,339	$ 92,623
Property, plant and equipment - net	$166,678	$163,299
Long term debt (less current maturities)	$ 57,118	$ 90,559
Prepayment of future gas sales	$ 1,680	$ 1,680
Deferred income taxes	$ 26,881	$ 24,701
Capital stock	$ 95,269	$ 94,772
Retained earnings	$ 37,611	$ 32,254
Other assets and deferred charges	$ 2,237	$ 2,017

OPERATING

	1971	1970
Production and Sales		
Crude oil and natural gas liquids production — barrels per day	20,500	18,200
Natural gas sales — thousands of cubic feet per day	93,900	88,400
Sulphur sales — long tons	34,600	32,300
Daily Average Pipe Line Gatherings (Barrels)		
Cremona Pipe Line Division	37,700	38,700
Federated Pipe Lines Ltd.	205,400	178,400

HOME OIL COMPANY LIMITED

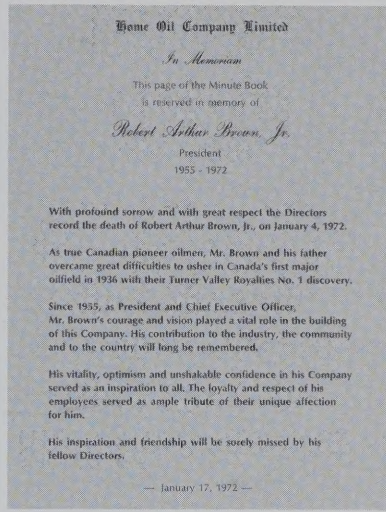
INTERIM REPORT to the SHAREHOLDERS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1971

304 - SIXTH AVE. S.W.
CALGARY 1, ALBERTA

NOVEMBER 15, 1971

ROBERT ARTHUR BROWN, Jr.
President
1955 - 1972



Home Oil Company Limited

In Memoriam

This page of the Minute Book
is reserved in memory of

Robert Arthur Brown, Jr.

President

1955 - 1972

With profound sorrow and with great respect the Directors record the death of Robert Arthur Brown, Jr., on January 4, 1972.

As true Canadian pioneer oilmen, Mr. Brown and his father overcame great difficulties to usher in Canada's first major oilfield in 1936 with their Turner Valley Royalties No. 1 discovery.

Since 1955, as President and Chief Executive Officer, Mr. Brown's courage and vision played a vital role in the building of this Company. His contribution to the industry, the community and to the country will long be remembered.

His vitality, optimism and unshakable confidence in his Company served as an inspiration to all. The loyalty and respect of his employees served as ample tribute of their unique affection for him.

His inspiration and friendship will be sorely missed by his fellow Directors.

— January 17, 1972 —

R. A. Brown, Jr., President and Chief Executive Officer of Home Oil Company Limited, passed away on January 4, 1972.

In 1948 Mr. Brown became President of Federated Petroleums Ltd. and United Oils, Limited. In 1952 he acquired control of Home Oil Company Limited and in 1955 Home and Federated were merged into one company.

Mr. Brown was also President and Chief Executive Officer of Cygnus Corporation Limited, President of Natural Resources Growth Fund Ltd. and a Director of TransCanada PipeLines Limited, Calgary Power Ltd., Crown Trust Company, Great Lakes Gas Transmission Company and Great Lakes Paper Company, Limited.

In 1968 Mr. Brown was honoured with a Doctorate from the University of Calgary.

Mr. Brown directed his energy and initiative towards the betterment of the oil and gas industry in Canada, particularly in Alberta. He was a major force in the development and expansion of markets for Canadian crude oil and natural gas and worked towards improving the industry's position under various Governmental policies.

Through his personal dedication and expertise, Mr. Brown did much to build the Company into one of Canada's largest independent oil and gas producers, with extensive exploration and production activities in Canada and abroad.

Change in Control

The Consumers' Gas Company recently completed the purchase of the controlling interest of the late R. A. Brown, Jr. and his family in the Class B voting shares of Cygnus Corporation Limited. Cygnus owns 1,000,000 Class B voting shares of Home Oil or approximately 38.9% of its outstanding voting shares.

In November, 1971 Consumers' purchased 275,506 Class B shares of Home Oil from two subsidiaries of the Company. As a result of these transactions, Consumers' now exercises control over 1,275,506 Class B shares, representing approximately 49.6% of the voting shares of Home Oil Company Limited. Further details concerning the sale of the Class B shares of Home to Consumers' are given in the Financial Review section.

Officers

Oakah L Jones	Chairman of the Board and Chief Executive Officer
J. B. Weir	Vice-Chairman of the Board
M. P. Paulson	Senior Vice-President, Operations
R. F. Phillips	Senior Vice-President, Finance
R. B. Coleman	Vice-President, Secretary and General Counsel
I. M. Drum	Vice-President, Special Projects
W. T. Wilkinson	Vice-President, Marketing
B. B. Rombough	Treasurer
J. P. Crone	Comptroller
F. G. Mitchell	Assistant Secretary

Management Changes

In April, 1971 Oakah L Jones was elected Chairman of the Board and, following the death of R. A. Brown, Jr. in January, 1972, was appointed Chief Executive Officer of the Company.

In May, 1971 M. P. Paulson was appointed Senior Vice-President, Operations and R. F. Phillips was appointed Senior Vice-President, Finance. The two Senior Vice-Presidents and R. B. Coleman, Vice-President and General Counsel, report to Mr. Jones. Mr. W. D. Lundberg was subsequently appointed Manager, Production and Pipelines.

On February 1, 1972 G. J. Blundun voluntarily relinquished his position as Vice-President, Exploration, but will continue to be employed by the Company until his normal retirement date of November 1, 1972. Mr. G. Fong was appointed Exploration Manager and R. E. Humphreys was appointed Manager, Petroleum and Mineral Rights.

Directors

*Oakah L Jones, *(Toronto, Ontario)*

Chairman of the Board and Chief Executive Officer of the Company;

Chairman of the Board of The Consumers' Gas Company;

Chairman of the Board and Managing Director of Cygnus Corporation Limited;

Director: Canada Permanent Companies, Boiler Inspection and Insurance Company of Canada, Rubbermaid (Canada) Limited;

Chairman of the Board of the Ontario Research Foundation.

*James B. Weir, O.B.E., *(Montreal, Quebec)*

Vice-Chairman of the Board of the Company;

Chairman of the Board of Oswald, Drinkwater and Graham Ltd.

The Right Hon. The Earl Beatty, D.S.C., *(London, England)*

Chairman of the Board of Home Oil of Canada Limited.

Marsh A. Cooper, *(Toronto, Ontario)*

President and Managing Director of Falconbridge Nickel Mines Limited;

Chairman of the Board of McIntyre Porcupine Mines Limited, Falconbridge Copper Limited;

President and Director of Falconbridge Dominicana C. por A.

Director: Abitibi Paper Company Ltd., Hambro Corporation of Canada Limited, Natural Resources Growth Fund Ltd., Crown Life Insurance Company, Bridge and Tank Co. of Canada Ltd., Canadian Imperial Bank of Commerce, Mogul of Ireland Limited, Texas Eastern Transmission Corporation.

Percy M. Fox, *(Bermuda)*

Chairman of the Board of The Great Lakes Paper Company, Limited;

Director: Argus Corporation Limited, The Royal Trust Company, St. Lawrence Corporation Limited, Claude Neon Advertising Limited.

*J. D. Gibson, O.B.E. *(Toronto, Ontario)*

Chairman of Canadian Reinsurance and Canadian Reassurance Companies;

Chairman, Eddy Match Company Limited;

Director: The Imperial Life Assurance Company of Canada, The Consumers' Gas Company, National Trust Company, Limited, Harding Carpets Limited, Steel Company of Canada Limited, Bell Canada, Moore Corporation Limited.

Chairman of the Board of Trustees, Queen's University.

The Hon. Harry W. Hays, P.C., *(Calgary, Alberta)*

Rancher.

Member of the Canadian Senate.

Director: Paragon Enterprises, Canada Permanent Companies, Natural Resources Growth Fund Ltd., Canadian Studies Foundation, Burritt Travel Agencies.

Associate Life Director of the Calgary Exhibition and Stampede.

*F. Warren Hurst, *(Toronto, Ontario)*

Executive Vice-President and General Manager - Corporate, Finance, and Non-Utility Operations, and Director of The Consumers' Gas Company.

James Innes, *(London, England)*

Investment Consultant, Hedderwick, Borthwick and Co.,

Chairman of The University Life Assurance Society;

Director: Home Oil of Canada Limited.

William F. James, *(Toronto, Ontario)*

Partner of James, Buffam and Cooper;

Vice-President and Director of Alminex Limited;

Director: Hambro Corporation of Canada Limited, Canadian Gas and Energy Fund Ltd., Eldorado Nuclear Ltd., Falconbridge Nickel Mines Limited, National Trust Company Ltd., Dome Mines Limited, The Granby Mining Company Limited.

*Henry E. Langford, Q.C. *(Toronto, Ontario)*

Director: The Consumers' Gas Company, The Dominion of Canada General Insurance Company, Victoria & Grey Trust Company, The Empire Life Insurance Company, United Accumulative Fund Ltd., The Toronto Iron Works Ltd., E. L. Financial Corporation, Casualty Insurance Company, United American Fund, Geo. J. Mcleod Co. Ltd., Ontario Hospital Association, Family Planning Association of Canada, Chairman, Care of Canada.

Joseph C. McCarthy, *(Toronto, Ontario)*

President and Director of The Consumers' Gas Company;

Director: The Toronto-Dominion Bank.

Harry I. Price, *(Toronto, Ontario)*

Chairman of the Executive Committee and Director of Burns Foods Limited;

Renault St-Laurent, Q.C., *(Quebec City, Quebec)*

Partner of St-Laurent, Monast, Desmeules, Walters and Dubé.

Director: Air Canada, Anglo-Canadian Pulp and Paper Mills Limited, Banque Canadienne Nationale, Sicard Inc., The Imperial Life Assurance Company of Canada, Scott Paper Limited, Canadian National Railways, Canadian Breweries Limited, Gaz du Quebec Inc., Rothmans of Pall Mall Canada Limited, I.A.C. Limited, Donohue Brothers Limited.

*Member Executive Committee.

Highlights

Gross revenue increases 14.1% to $34,252,000.

Net earnings after extraordinary items up 11.5% to $6,075,000 or $.85 per share.

Net cash flow from operations amounts to $15,964,000 or $2.24 per share, an increase of 14.0%.

Average production of crude oil and natural gas liquids, at 21,135 barrels per day, reaches an all time high.

Natural gas sales up 4.1% to 92.9 million cubic feet per day.

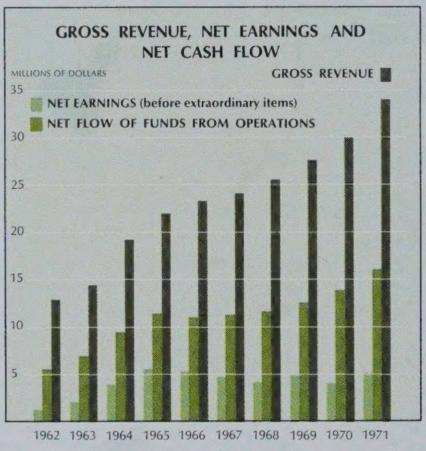
Natural gas discovery in Northeastern British Columbia.

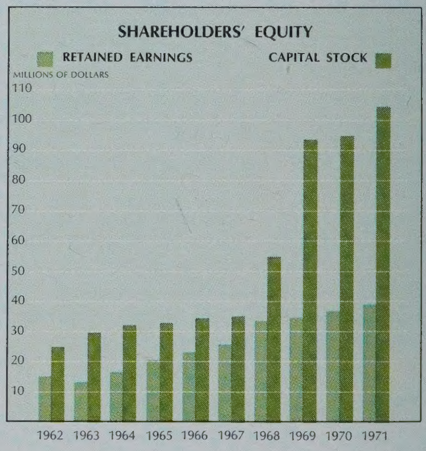
Acquisition of exploration acreage in the Canadian Arctic.

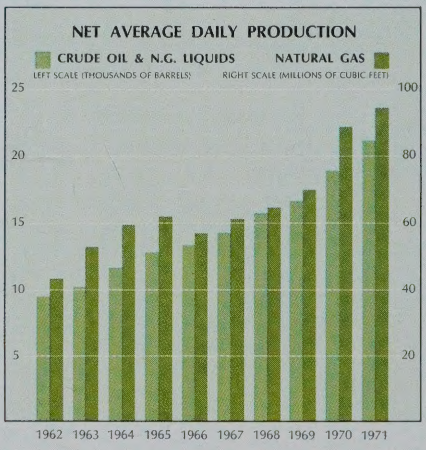
Expansion of exploration activities into the Mediterranean.

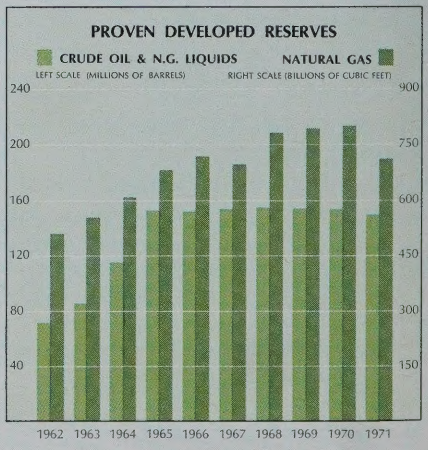
Sale of investments by the Company in 1971 realizes $3,375,000.

Sale of Class B shares held by subsidiaries realizes $9,119,000.









Chairman's Report to the Shareholders

The Company's gross revenue for 1971 increased 14.1% to an all time high of $34,252,000 while net earnings after extraordinary items amounted to $6,075,000 or 85 cents per share. The net flow of funds from operations rose to $15,964,000 or $2.24 per share. A more detailed analysis may be found in the Financial section of this report.

The Company's production achieved record levels during 1971. Crude oil and natural gas liquids production increased 11.3% to 21,135 barrels per day while natural gas sales increased 4.1% to 92.9 million cubic feet per day. Operated pipeline throughput showed an increase of 11.9% to 250,555 barrels per day, which represents approximately 23% of Alberta's production of light and medium crude oil and condensate.

During the latter part of 1971 and early in 1972 the Company disposed of a number of its investments and completed a Convertible Debenture offering. Further details of these transactions are outlined in the Financial Review section.

The past year saw the Company expand its exploration activities in the North Sea and into the Mediterranean and the Canadian Arctic, while retaining Western Canada as its primary area of interest.

Your Company is a member of two consortia which were formed to undertake exploration activities in the North Sea and the Celtic Sea and submitted applications for licenses in August, 1971 to the U.K. Department of Trade and Industry.

The Company is pleased to report that the North Sea consortium, in which it has a 30% interest, was awarded two exploration blocks, both of which are considered highly prospective. Block 210/19 lies approximately 16 miles west of Block 211/21 for which another group of companies had originally paid a cash bonus of $54 million. The second block, 38/2, lies near the Shell Auk Field.

In order to fulfill the undertakings given to the U.K. Government further detailed seismic work will be carried out and drilling operations will commence when suitable equipment becomes available.

The Company entered into a Norwegian limited partnership for the construction and operation of a semi-submersible drilling vessel, expected to be completed in late 1973. The cost of construction of the vessel is estimated at $23 million of which the Company's share is 20%.

In the United Kingdom, the Pickering Gas Plant, owned jointly by Home's U.K. subsidiary and the Gas Council, went on-stream on May 12, 1971. Production from the field is less than originally anticipated as a result of difficulties associated with the processing of the gas and concentrated efforts are being made to remedy the problem. Recent reservoir pressure tests indicate that the recoverable reserves are less than the Company originally estimated.

Exploration activities in Alaska were suspended during 1971, primarily as a result of the uncertainties surrounding the transporting of North Slope crude oil to southern markets. The Company was relieved of any further obligations under the Atlantic Richfield farmout commitment in consideration for reducing its interest in a portion of the farmout lands from 50% to 25%. One of the participants in tract 73 which was acquired at the State of Alaska land sale has signified its intention to drill an exploratory well on the block. The Company elected not to participate in this venture and will, if the drilling proceeds, forfeit its interest in a substantial portion of the lease. Since the end of the year negotiations have been commenced with third parties concerning the possibilities of arranging farmout agreements on lease blocks in Alaska in which the Company has an interest.

Present Crown royalty rates in Alberta will be revised in 1972. The revisions presently being formulated by the Provincial Government are expected to result in increased royalty payments by producers. This will not only reduce funds available for capital expansion in Alberta but will also adversely affect the economics of continuing to produce marginal fields. A great deal of thought will have to be given by the Government to the over-all impact of any change in the royalty structure, bearing in mind the need for continued exploration incentives.

Your Company is concerned with the recent National Energy Board decision to limit the export of Western Canadian natural gas to the United States. Western producers disagree with the Board's deter-

mination of surplus gas supplies which omitted potential reserves in frontier areas and did not take sufficiently into consideration potential increases in existing reservoirs.

The Alberta Energy Resources Conservation Board is holding hearings on the present method of determining the field prices of natural gas marketed outside the Province. These hearings were requested by the Provincial Government to determine whether or not Albertans are receiving a sufficient return from the sale of this depleting natural resource under current and contemplated North American market conditions. The results of these hearings may benefit producers on future contract prices for natural gas marketed outside the Province, but could also involve Canadian constitutional questions.

The demand for Canadian crude oil appears bright with the expected relaxation of U.S. import restrictions and recent increases in the price of Middle East and Venezuela crude. We are optimistic that these factors may result in a further increase in the price of Canadian crude, which in our opinion is too low. In view of these prospects, the Company is increasing the productive capability of its high reserve fields and the throughput capacity of its pipelines.

The increasing North American energy demand also indicates the need for further development of additional sources of fossil fuels. Home is currently reviewing its significant land holdings in the Athabasca Tar Sands and is presently engaged in a 69 well shallow test program. The Tar Sands represents one of the largest undeveloped sources of synthetic crude oil in the world.

The Company has instituted additional stringent pollution control measures in conjunction with conservation authorities with a view to continuing to protect the environment for future generations.

There have been several changes in the Board of Directors during the past year. Messrs. R. W. Campbell, E. F. Davis, M. A. Dutton, H. J. Howard, J. B. Sangster, G. H. Thompson, A. J. Walker and R. F. Will have retired from the Board. The Company is most appreciative of the many contributions made by these gentlemen. New members elected to the Board are Messrs. J. D. Gibson, F. W. Hurst, J. Innes, Oakah L Jones, H. E. Langford and J. C. McCarthy and early in 1972 Senator Harry W. Hays was also appointed a Director. The Company is confident that their wide experience will contribute significantly to the continued success and growth of Home Oil Company Limited.

Effective February 1, 1972, Mr. G. J. Blundun requested that he be relieved of his duties as Vice-President, Exploration. He will continue his employment with the Company until his normal retirement date of November 1, 1972. The Board of Directors extends its appreciation to Mr. Blundun for the many valuable contributions he made to the Company during his 19 years of service.

The Directors have asked me to record their sincere appreciation to the employees for their loyalty and dedication during the past year and solicit their continued support in maintaining the Company's position as an aggressive exploration and development company.

The past year ended on a very sad note with the sudden passing of R. A. Brown, Jr., on January 4, 1972. Those of us who knew Mr. Brown have experienced a very deep and personal loss. Our sincere condolences go out to his family and many close friends.

Submitted on behalf of the Board of Directors.

Oakah Jones

Chairman of the Board and
Chief Executive Officer

Calgary, Alberta
March 17, 1972.

Exploration

Home was more active in exploration in 1971 than in any previous year in its history, based on the total number of wells in which it participated, although the total exploration expenditure of $9,194,000 was less than that of each of the three preceding years. The Company also expanded its operations into new areas in which it was not previously represented.

Home had varying interests in 78 exploration and development wells that were drilled and completed during the year and was participating in an additional 6 wells which were drilling at year end. The 59 exploratory wells completed in 1971 resulted in 12 gas and 3 oil discoveries in Alberta, British Columbia, U.S.A., and the United Kingdom and the 19 development wells completed during the year resulted in 3 gas and 10 oil wells in Alberta and one oil well in Saskatchewan.

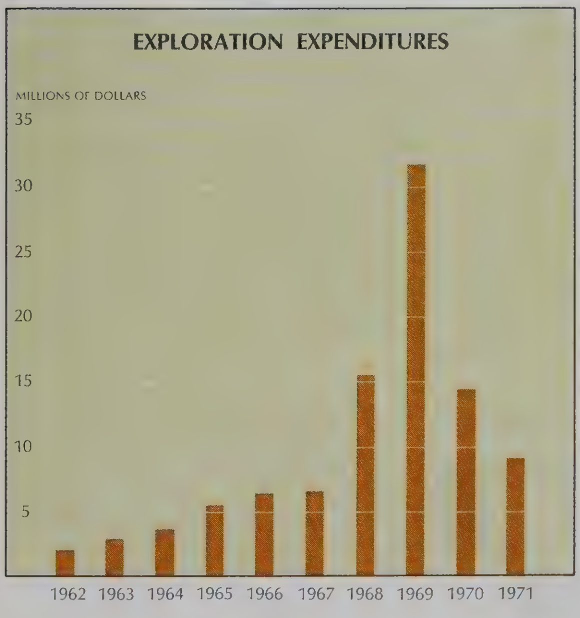
Exploration activities were carried on in Canada, including Alberta, British Columbia, Ontario, the Yukon and Northwest Territories, Hudson Bay and the Arctic, and in a number of foreign areas, including the U.S.A., England, the North Sea, and the Mediterranean.

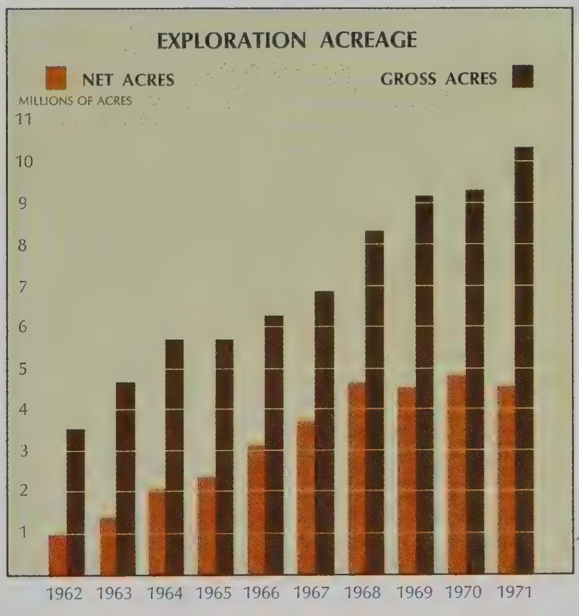
In Alberta, the drilling of 48 exploratory wells in which the Company had an interest resulted in the completion of 3 oil wells and 8 gas wells. Two wells were still drilling at year end.

Home is conducting a 69 well shallow drilling and coring program in the Athabasca Tar Sands area Northeast of Fort McMurray, Alberta, to evaluate more fully the potential of its 87½% interest in leases comprising 37,715 acres.

In Northeastern British Columbia 5 wells were drilled. One, Attachie 7-20 in the Cache Creek area, resulted in a promising dual zone gas discovery. The well is capable of commercial production from the Baldonnel carbonates and the Kiskatinaw sands. The Company's land position in the area is strong, and follow-up drilling is planned in 1972. In addition to the above drilling Home has conducted geophysical operations in the Dunvegan area.

In Southwestern Ontario a 40-well shallow drilling program in Aldborough Township started late in 1971, and is continuing.





In the Yukon (Bell River area) and Northwest Territories (Grandview area), Hudson Bay and the Canadian Arctic, the Company's activities have so far been limited to participation in geophysical surveys.

Home has an interest in two consortia which were formed to undertake further exploration in the North Sea and in the Celtic Sea. Extensive geological and seismic studies have been carried out, and applications for Production Licenses in chosen areas of interest were filed in August, 1971 with the British Government. Seismic surveys continue on the Company's Yorkshire licenses.

The Company's most recent foreign exploration venture has been in the Mediterranean area. It is participating in an extensive exploration program in Italy and offshore Italian waters. To date two wells have been drilled on the Italian mainland, both of which were dry.

In 1971, the Government of Malta issued its first Production Licenses covering offshore acreage. Home has a 21.25% interest in, and is operator for, a consortium which was awarded one license. Following a marine seismic program, a location was selected for an exploratory well which commenced drilling in January, 1972.

At the end of 1971 the Company's land interests amounted to 10,293,874 gross acres, or 4,566,410 net acres. Major land acquisitions during the year included varying interests in 141,390 acres of Permits, Reservations and Leases in Alberta, 91,360 acres of Permits in Northeastern British Columbia, 245,915 acres on Ellef Ringnes Island and 1,555,452 acres of Permits onshore and offshore Italy.

During 1971 Home participated with major mining companies in 10 exploration syndicates in British Columbia, Yukon Territory, Southwestern Alberta, Ontario and New Brunswick, with interests varying from 12.2% to 50%. Exploration and research expenditures amounting to $223,000 were incurred in the search for base metal deposits in British Columbia and Eastern Canada and investigation of coal occurrences in Southwestern Alberta. Four of the syndicates were terminated late in 1971. The Company will continue to participate in further exploration in Southwestern Alberta, British Columbia, the Yukon Territory and New Brunswick.

Drill ship "Louisiana" being towed into Valetta harbour in Malta.

Reserves

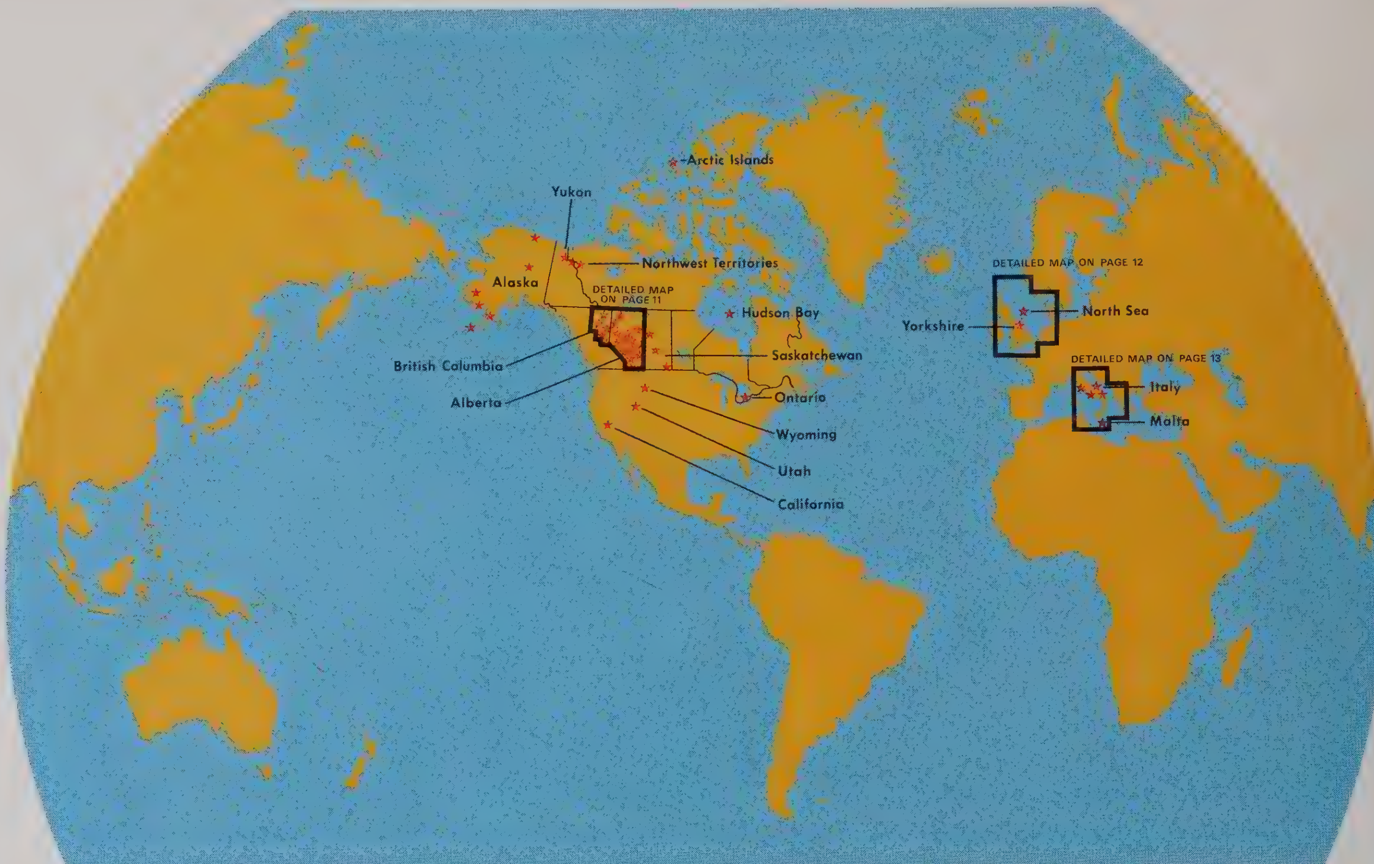
A summary of the Company's crude oil, natural gas liquids, natural gas and sulphur reserves at January 1, 1972 as prepared by Company engineers is shown in the table below.

The Company's proven developed crude oil reserve life index at 1971 production rates is approximately 20 years.

Reserves – January 1, 1972
(after deduction of royalties)

	Proven Developed
Crude oil - barrels	**133,489,700**
Natural Gas Liquids - barrels .	**16,209,000**
Natural Gas - 1,000 cubic feet	**710,767,000**
Sulphur - long tons	**1,436,900**

The above figures do not include proven undeveloped or probable additional reserves.



Map of the World

★ HOME OIL AREAS OF INTEREST

Exploration Acreage, January 1, 1972

	Petroleum and Natural Gas Leases		Reservations, Permits and Licences		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Alberta	2,531,500	1,211,452	566,485	237,472	3,097,985	1,448,924
British Columbia	39,025	12,979	704,372	306,515	743,397	319,494
Arctic Islands	–	–	245,915	140,783	245,915	140,783
Northwest Territories	–	–	400,728	62,742	400,728	62,742
Hudson Bay	–	–	898,431	898,431	898,431	898,431
Yukon Territory	–	–	1,032,561	250,379	1,032,561	250,379
Ontario	30,029	9,774	–	–	30,029	9,774
Saskatchewan	194,162	81,768	–	–	194,162	81,768
	2,794,716	1,315,973	3,848,492	1,896,322	6,643,208	3,212,295
Europe						
Italy	–	–	1,555,452	376,863	1,555,452	376,863
Malta	–	–	435,902	92,629	435,902	92,629
Yorkshire (U.K.)	–	–	931,588	465,794	931,588	465,794
North Sea (U.K.)	–	–	55,856	3,561	55,856	3,561
	–	–	2,978,798	938,847	2,978,798	938,847
United States						
Alaska	607,598	397,460	–	–	607,598	397,460
Other	64,270	17,808	–	–	64,270	17,808
	671,868	415,268	–	–	671,868	415,268
	3,466,584	1,731,241	6,827,290	2,835,169	10,293,874	4,566,410


NORTHWEST TERRITORIES
N.E. BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
U.S.A.
SIXTH MERIDIAN
FIFTH MERIDIAN
ATHABASCA TAR SANDS
FEDERATED PIPELINE (OPERATED)
CREMONA PIPELINE (OPERATED)
EDMONTON
CALGARY
LETHBRIDGE
Alberta and N.E. British Columbia
SCALE IN MILES
LEGEND
HOME OIL LAND HOLDINGS
MAJOR OIL FIELDS
MAJOR GAS FIELDS
HARDISTY STORAGE PROJECT
OPERATED GAS PLANTS
OIL PIPELINES
OIL PIPELINES IN WHICH HOME HAS MAJOR INTERESTS
GAS PIPELINES
NON-OPERATED GAS PLANTS
INSET MAP
ALASKA
ALBERTA
U.S.A.
RED OUTLINE Shows Area Covered By Large Scale Map In Relation To The Rest Of Canada


England and the North Sea
STATUTE MILES
COMPANY LANDS IN THE NORTH SEA
OIL FIELDS
GAS FIELDS
LOCATIONS
GAS WELLS
OIL WELLS
OIL and GAS
DRY and ABANDONED
GAS PIPELINES
PROPOSED
UNDER CONSTRUCTION
NOTE: Dry and Abandoned Wells in the North Sea are not Shown on this Map.
INSET MAP OF COMPANY LANDS YORKSHIRE – N.E. ENGLAND
GROSS ACRES 931,588
NET ACRES 465,794
Approximately
GROSS ACRES – 49,018
NET ACRES – 14,705
GROSS ACRES – 55,856
NET ACRES – 3,561
Approximately
GROSS ACRES – 57,347
NET ACRES – 17,204
RALPH CROSS
Eskdale
LOCKTON
PICKERING GAS PLANT
WYKEHAM
MALTON
WEAVERTHORPE
LANGTOFT
NORTH SEA
NORWAY
Kristiansand
SWEDEN
DENMARK
Esbjerg
Odense
Flensburg
Schleswig
GERMANY
Hamburg
Wilhelmshaven
Emden
NETHERLANDS
Amsterdam
Rotterdam
Antwerp
BELGIUM
FRANCE
Boulogne
Le Havre
SCOTLAND
Aberdeen
Edinburgh
Glasgow
Belfast
Middlesbrough
YORKSHIRE
York
Hull
Liverpool
Birmingham
Northampton
WALES
Cardiff
ENGLAND
LONDON
Canvey Terminal
Bacton
Southampton
Frigg
Forties
Cod
Tor
Ekofisk
Auk
Dan
Rough
West Sole
Ann
Viking
Indefatigable
Broken Bk
Dotte
Hewett
Sean
Leman Bank
L-10
Slochteren
Schoonebeek
NORWAY DENMARK
DENMARK WEST GERMANY
UNITED KINGDOM NETHERLANDS
W Long.
E Long

AREA NAME	GROSS	NET
d9-ER-1R	310,000	77,500
TAVOLETO GROUP	228,000	57,000
GROSSETO	120,000	18,000
MONTE VECCHIO	10,082	2,520
BR-48-1R	25,927	6,482
MONTEDORO	54,000	13,500
MONTE VERRUTOLI	75,068	18,767
ER-9-1R ER-10-1R ER-11-1R ER-12-1R ER-13-1R	715,000	178,750
MALTA	435,902	92,629

Production

The past year saw continued growth in the Company's level of operations, with record volumes again being established in the production and sale of crude oil, natural gas and products.

The average daily production of crude oil and natural gas liquids was 21,135 barrels per day, an increase of 11.3% over the previous record of 18,994 barrels per day established in 1970.

Natural gas sales averaged 92.9 million cubic feet per day in 1971, an increase of 4.1% over the 89.2 million cubic feet per day sold in 1970, and included production from the Lockton gas field in the United Kingdom for the first time.

Sulphur sales increased to 45,623 long tons in 1971 from 39,447 long tons in 1970. However, continuing depressed prices caused by the world surplus supplies resulted in a 14.6% decrease in sulphur revenues.

The increase in crude oil production resulted from a general increase in demand for Alberta crude oil. An extensive program to increase the Company's productive capacity was started in 1971 in anticipation of the continuing high demand for Alberta crude. Expansion of production into the east side of Swan Hills Unit No. 1, in which the Company has an interest of approximately 17%, will increase the capacity of the unit from 63,000 barrels per day at December 31, 1971 to an estimated 85,000 barrels per day by April 1, 1972. A further expansion in late 1972 is expected to increase the capacity to 95,000 barrels per day and in subsequent years production facilities will be installed to further increase capacity.

Construction of the Lockton Gas Gathering System and Pickering Natural Gas Processing Plant was completed by the Company's United Kingdom subsidiary in May, and sales of natural gas from the Lockton field commenced at that time. The Company's share of sales of natural gas to year end averaged 13 million cubic feet per day. Production from this field is less than originally anticipated because of processing problems encountered following plant start-up. Recent reservoir pressure tests indicate that the recoverable reserves are less than the Company originally estimated.

Sources of Production

Net Wells December 31 1971	Producing Field	1971	1970	1969	1968	1967
	CRUDE OIL – barrels					
75.39	Swan Hills	3,358,966	2,653,892	2,427,584	2,348,800	1,998,839
59.65	Pembina	802,735	735,871	553,598	503,138	457,138
15.86	Mitsue-Saulteaux	766,250	641,313	549,163	338,560	305,297
12.83	Virginia Hills	550,619	518,072	441,368	376,543	387,458
110.60	Turner Valley	294,355	319,889	316,674	313,902	311,963
15.80	Harmattan-Elkton	279,572	253,743	248,452	253,586	265,944
30.28	Leduc-Woodbend	188,428	193,242	185,846	233,793	251,048
48.58	Others	349,628	342,398	350,235	432,871	440,366
368.99	Total Crude Oil	6,590,553	5,658,420	5,072,920	4,801,193	4,418,053
	Daily Average	18,056	15,503	13,898	13,118	12,104
	NATURAL GAS LIQUIDS – barrels					
–	Carstairs-Elkton	560,300	706,833	521,951	514,550	387,382
2.51	Harmattan	226,073	228,061	230,267	206,206	188,046
–	Nevis	90,637	82,455	62,427	65,884	61,158
–	Calgary	70,126	72,041	65,389	61,789	53,614
–	Others	176,602	184,787	130,279	117,297	104,091
2.51	Total Natural Gas Liquids	1,123,738	1,274,177	1,010,313	965,726	794,291
	Daily Average	3,079	3,491	2,768	2,639	2,176
	Total Crude Oil and Natural Gas Liquids	7,714,291	6,932,597	6,083,233	5,766,919	5,212,344
	Daily Average	21,135	18,994	16,666	15,757	14,280
	NATURAL GAS – 1,000's of cubic feet					
3.85	Carstairs-Elkton	10,717,992	11,817,769	10,752,025	9,321,641	8,668,788
3.26	Nevis	5,371,121	5,114,445	4,035,372	3,684,793	3,976,057
1.00	Lockton	2,742,388	–	–	–	–
4.00	Marten Hills	2,584,516	2,882,899	222,580	–	–
.81	Calgary	2,053,816	2,007,333	1,779,762	1,756,112	1,367,066
–	Swan Hills	1,374,073	1,134,374	958,204	969,602	894,799
9.69	Turner Valley	1,329,264	1,422,340	1,549,785	1,529,102	1,434,901
1.47	Whitecourt	1,048,704	1,508,676	87,954	–	–
.66	Crossfield	1,020,634	815,439	866,973	618,356	578,217
.32	Sarcee	801,417	724,496	844,526	1,019,135	1,024,733
–	Jumping Pound	767,208	1,175,931	1,366,668	1,209,256	1,100,354
.27	Nordegg-Brazeau	762,107	544,568	–	–	–
2.97	Retlaw	359,316	473,047	427,633	557,233	512,309
.80	South Elkton	287,260	366,756	383,851	418,647	393,703
1.51	Harmattan-Leduc	271,031	472,163	487,502	544,716	447,422
1.95	Pendor	253,857	213,816	340,265	403,520	294,253
1.89	Others	2,156,152	1,901,276	1,426,724	1,626,472	1,584,355
34.45	Total Natural Gas	33,900,856	32,575,328	25,529,824	23,658,585	22,276,957
	Daily Average – 1,000's of cubic feet	92,879	89,247	69,945	64,641	61,033

Pipelines

FEDERATED PIPE LINES LTD.

During the last quarter of 1971, Federated Pipe Lines Ltd., 50% owned by the Company, completed a 20 mile sixteen inch loop, increasing the maximum daily mainline capacity by 20,000 barrels to 287,000 barrels per day.

Throughput increased by 15% to an average of 211,701 barrels per day from 184,175 barrels per day in 1970. The system accommodated a peak mainline throughput of 268,747 barrels per day compared to a peak of 237,000 barrels per day in 1970. Forecasts indicate that further gathering and mainline expansion will be required in 1972 to handle gatherings in excess of 300,000 barrels per day.

CREMONA PIPE LINE DIVISION

Cremona Pipe Line Division's gatherings of crude oil, condensate and butane averaged 38,854 barrels per day in 1971, a decrease of 2.1% from 39,670 barrels per day in 1970.

L.P.G. Marketing

During 1971 the operations of Union Petroleum Corporation, Home's wholly owned L.P.G. marketing company, were adversely affected by mild weather and the United States Government's price control measures.

The market for propane was weakened by the unusually mild winter of 1971 and a moderate fall season. As a result, the products handled amounted to 244 million gallons, a decline of 9.6% from the 270 million gallons handled in 1970, and large quantities were carried over in inventory.

The introduction in August of the United States Government's anti-inflation program prevented the normal seasonal price adjustment for L.P.G. products, and as a result, Union Petroleum Corporation had to write down the value of its year end inventories to reflect the decline in their market value.

Employees

A total of 592 persons was employed by the Company and its subsidiaries at December 31, 1971, compared with 545 at the end of the previous year. Staff increases resulted from the commencement of operations at the Pickering Natural Gas Processing plant in the United Kingdom and increased activity in the production and exploration areas of the Company.

Employees participate in a comprehensive employee benefits program, which includes a pension plan, savings plan, group life and health insurance plans and an income protection plan. The Company constantly reviews this program to ensure that Home maintains a competitive position within the industry.

Financial Review

Home Oil's gross revenue in 1971 increased 14.1% to $34,252,000 from a previous high in 1970 of $30,008,000. The substantial increase was a result of increased sales of crude oil, natural gas and natural gas liquids and a 25c per barrel increase in the price of crude oil in December, 1970.

Home's net earnings before extraordinary items amounted to $5,237,000 or $0.73 per share as compared with $4,057,000 or $0.58 per share for the same period in 1970. The increased earnings resulted from higher revenues and a decrease in interest expense, partially offset by increased depletion, operating expense and income taxes. The dilutive effect of options and warrants outstanding is insignificant and does not change the net earnings per share.

During 1971 net earnings, including gains of $838,000 from sale of investments, amounted to $6,075,000 or $0.85 per share. This compares with $5,447,000 or $0.78 per share in 1970.

Net cash flow from operations amounted to $15,964,000 or $2.24 per share compared with $14,005,000 or $1.99 per share in 1970. Dividends of fifty cents per share were declared on both the Class A and Class B shares of the Company.

During the year a number of significant transactions were undertaken which strengthened the Company's financial position.

In the early part of 1971 the Company completed a six-year $3,250,000 (U.S.) Eurodollar loan to assist in the financing of its United Kingdom operations.

In the month of October, 1971 the Company sold 100,000 common shares of TransCanada PipeLines Limited for a net consideration of $3,375,000, the proceeds of which were applied in the reduction of the Company's bank indebtedness.

On November 2, 1971, Foothills Oil and Gas Company, Limited (a 99.8% owned subsidiary of Home) and Coastal Oils Limited (a 99.3% owned subsidiary of Home) sold, respectively, 170,939 and 104,567 Class B shares of Home Oil Company Limited to The Consumers' Gas Company at a price of $33.10 per share (the weighted average selling price of Class B shares of Home on The Toronto Stock Exchange during the month of October, 1971) aggregating $9,119,000.

Early in 1972, the Company sold publicly in Canada, through an underwriting group, $25,000,000 principal amount of 5½% Convertible Subordinated Debentures due February 1, 1992. The Debentures are convertible at $38 per share into 657,895 Class A shares of the Company and are redeemable through the operation of a Sinking Fund commencing February 1, 1982. The net proceeds of $24,500,000 were used mainly to retire the Company's short term bank indebtedness.

Subsequent to December 31, 1971 the Company disposed of 200,000 common shares of TransCanada PipeLines Limited for $7,930,000, reducing its investment to 500,000 common shares. A portion of the net proceeds from the sale of these investments was used to retire the Company's Eurodollar loan.

As a result of the above transactions the Company's working capital position has significantly improved since the end of 1971.

	Class A		Class B	
	1971	1970	**1971**	1970
Volume of Shares Traded	**3,912,807**	8,408,356	**354,695**	498,834
Geographical Distribution of Shares – December 31				
Canada	**79.3%**	63.2%	**95.0%**	93.7%
United States	**19.9**	36.1	**4.5**	6.1
United Kingdom	**.5**	.4	**.1**	.1
Other	**.3**	.3	**.4**	.1
	100.0%	100.0%	**100.0%**	100.0%

Auditors' Report

To the Shareholders
Home Oil Company Limited

We have examined the consolidated balance sheet of Home Oil Company Limited and subsidiaries as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 23, 1972.

RIDDELL, STEAD & CO.
Chartered Accountants

Consolidated Statement of Source and Use of Funds

For the year ended December 31, 1971

	1971	1970
Funds were obtained from		
Net earnings before extraordinary item	$ 5,237,000	$ 4,057,000
Adjustment for non-cash items and difference between earnings of 50% owned companies and dividends received	10,727,000	9,948,000
Net flow of funds from operations	15,964,000	14,005,000
Sale of investments	3,375,000	25,738,000
Sale of Class B shares by subsidiaries	9,119,000	–
Issuance of capital stock	353,000	1,188,000
Long-term borrowings	3,269,000	10,000,000
Prepayment of future natural gas sales	–	1,680,000
	$32,080,000	$52,611,000
Funds were used for		
Property, plant and equipment	$15,295,000	$17,967,000
Repayment of long-term debt	7,288,000	39,230,000
Dividends	3,606,000	3,517,000
Net increase (decrease) in other non-current assets	(317,000)	1,245,000
	25,872,000	61,959,000
Increase (Decrease) in Working Capital	6,208,000	(9,348,000)
	$32,080,000	$52,611,000

Consolidated Statement of Earnings
For the year ended December 31, 1971

	1971	1970
Revenue		
Operating revenue	$30,367,000	$26,283,000
Investment income (Note 1)	3,885,000	3,725,000
	34,252,000	30,008,000
Expense		
Operating	5,407,000	4,121,000
General and administrative	4,081,000	4,018,000
Depletion	7,088,000	5,540,000
Depreciation	2,216,000	1,965,000
Interest and expense on long-term debt	4,476,000	6,128,000
Other interest	1,939,000	1,677,000
	25,207,000	23,449,000
Net earnings before provision for income taxes	9,045,000	6,559,000
Provision for Income Taxes		
Current	1,778,000	–
Deferred	2,030,000	2,502,000
	3,808,000	2,502,000
Net Earnings before extraordinary item	5,237,000	4,057,000
Extraordinary Item		
Gain on sale of investments	838,000	1,390,000
Net Earnings	$ 6,075,000	$ 5,447,000
Earnings Per Share		
(based on average number of shares outstanding)		
Net earnings before extraordinary item	$ .73	$ .58
Extraordinary item	.12	.20
Net earnings	$ .85	$ .78

Consolidated Statement of Retained Earnings
For the year ended December 31, 1971

	1971	1970
Balance at beginning of year	$36,557,000	$34,627,000
Net earnings	6,075,000	5,447,000
	42,632,000	40,074,000
Dividends declared		
Class A shares	2,388,000	2,369,000
Class B shares	1,218,000	1,148,000
	3,606,000	3,517,000
Balance at end of year	$39,026,000	$36,557,000

Home Oil Company Limited and Subsidiary Companies

Consolidated Balance Sheet as at December 31, 1971

Assets

	1971	1970
CURRENT ASSETS		
Cash	**$ 6,040,000**	$ 4,551,000
Accounts receivable	**10,355,000**	8,252,000
Inventories at lower of cost and realizable value	**3,741,000**	1,233,000
	20,136,000	14,036,000
INVESTMENTS		
Quoted securities (Note 2)	**73,160,000**	75,696,000
50% owned companies (Note 1)	**3,789,000**	3,996,000
	76,949,000	79,692,000
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3)	**250,218,000**	233,578,000
Accumulated depletion and depreciation	**78,362,000**	68,957,000
	171,856,000	164,621,000
OTHER ASSETS AND DEFERRED CHARGES		
Unamortized debt financing expense	**249,000**	208,000
Miscellaneous (Note 6)	**1,460,000**	2,263,000
	1,709,000	2,471,000
	$270,650,000	$260,820,000

Approved on behalf of the Board:

Robert Young Director

W. A. James Director

Liabilities

	1971	1970
CURRENT LIABILITIES		
Bank indebtedness (Note 2)	**$ 25,214,000**	$ 27,997,000
Accounts payable and accrued charges	**8,202,000**	7,080,000
Dividends payable	**1,839,000**	1,767,000
Income taxes payable	**1,645,000**	–
Current maturities on long-term debt	**5,332,000**	5,496,000
	42,232,000	42,340,000
PREPAYMENT OF FUTURE NATURAL GAS SALES	**1,680,000**	1,680,000
LONG TERM DEBT (Notes 2 and 5)	**55,760,000**	59,779,000
DEFERRED INCOME TAXES (Note 4)	**27,575,000**	25,545,000

Shareholders' Equity

CAPITAL STOCK (Note 6)		
Authorized		
1,000,000 Preferred shares, par value $50 each		
7,000,000 Class A shares of no par value		
5,000,000 Class B shares of no par value		
Issued		
4,784,847 Class A shares (1970 – 4,767,194)	**83,758,000**	83,405,000
2,572,905 Class B shares (1970 – 2,572,905)	**20,619,000**	14,496,000
	104,377,000	97,901,000
RETAINED EARNINGS	**39,026,000**	36,557,000
	143,403,000	134,458,000
Less – cost of 275,506 Class B shares held by subsidiary companies	–	2,982,000
	143,403,000	131,476,000
	$270,650,000	$260,820,000

Notes to Consolidated Financial Statements
December 31, 1971

1. Accounting Policies

(i) Principles of Consolidation

a) The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock. These include the following wholly owned subsidiaries: Home Oil Company of Canada, Home Oil of Canada Limited, Home Pipe Line Company, Home Oil Malta Limited, Union Petroleum Corporation and its wholly owned subsidiary, Can-Am Liquids Co., Ltd. and the following substantially owned subsidiaries: Coastal Oils Limited, Foothills Oil and Gas Company, Limited, and United Oils, Limited and its wholly owned subsidiary, Madison Oils, Inc.

b) The Company follows the equity method of accounting for its investments in 50% owned companies, under which the Company's investment in such companies is carried on the balance sheet at cost plus its share of undistributed earnings or losses. The Company's share of the net earnings of these companies is included in investment income in the consolidated statement of earnings.

c) Current assets and current liabilities of foreign subsidiaries were converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities were converted at the rate in effect at the time the original transactions took place. Revenue and expense items were converted using average rates of exchange throughout the year.

(ii) Full Cost Method of Accounting

The Company and its subsidiaries follow the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against income as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

a) North America—Canada and the United States (including Alaska).

b) Northwestern Europe—the United Kingdom and the Northwestern European Continental Shelf which presently encompasses all sectors of the North Sea, the Celtic Sea and the English Channel.

c) Other Foreign Areas—a separate cost centre for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in North America and Northwestern Europe cost centres are depleted using the unit of production method based upon estimated proven developed reserves related to each cost centre, as determined by Company engineers. Expenditures incurred in Other Foreign Areas, aggregating $715,000, are being deferred pending the results of exploration still in progress in each area. These costs will be depleted, by cost centre, on the basis of reserves discovered in each area, or will be written off to income if exploration activities in that area prove unsuccessful.

In calculating depletion, natural gas and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

2. Investments

	Number of Shares	Cost	Quoted Market Value December 31, 1971
Atlantic Richfield Company			
—Common shares	422,936	$49,320,000	$30,519,000
—$2.80 Convertible preferred shares	53,440	3,487,000	3,052,000
TransCanada PipeLines Limited			
—Common shares	700,000	17,745,000	24,850,000
Other		2,608,000	3,930,000
		$73,160,000	$62,351,000

The shares of TransCanada PipeLines Limited, Atlantic Richfield Company and certain other shares are pledged to secure certain long term debt and the Company's bank borrowings.

3. Property, Plant and Equipment

The following is a summary of the cost of property, plant and equipment and the related accumulated depreciation and depletion as at December 31, 1971:

	Cost of Assets	Accumulated Depletion* and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development (Note 1)			
—North America	$187,390,000	$60,323,000*	$127,067,000
—Northwestern Europe	8,137,000	476,000*	7,661,000
—Other Foreign Areas	715,000	—	715,000
Production equipment	29,830,000	9,843,000	19,987,000
Land, buildings, pipeline property and other equipment	24,146,000	7,720,000	16,426,000
	$250,218,000	$78,362,000	$171,856,000

4. Income Taxes

It is the policy of the Company to make charges against earnings for depreciation of plant and equipment based upon the estimated service life of each group of assets, and to amortize the cost of exploring for and developing oil, gas and related reserves using the unit of production method. Each company, however, claims the maximum capital cost allowances and exploration and development costs allowed in calculating income taxes payable. To the extent that current income taxes are reduced by claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the financial statements, the companies provide for deferred income taxes by an additional charge to earnings which is credited to "Deferred Income Taxes".

5. Long Term Debt

	December 31, 1971	1970
Home Oil Company Limited		
5½% Secured Notes, Series B, due September 1, 1971	**$ —**	$ 752,000
6½% Secured Bonds, due January 31, 1975 ($2,900,000 U.S.)*	**2,758,000**	3,709,000
9.45% Secured Bonds, Series A, due September 30, 1973 ($1,727,000 U.S.)†	**1,751,000**	2,674,000
8.20% Secured Bonds, Series B, due April 30, 1980 ($17,404,000 U.S.)†	**18,669,000**	18,956,000
6⅞% Secured Bonds, due January 1, 1983 ($5,847,000 U.S.)*	**6,316,000**	6,999,000
6¼% Collateral Trust Bonds, due April 1, 1983 (subject to annual sinking fund payments)	**12,000,000**	13,000,000
6¾% Mortgage, maturing January 1, 1978†	**786,000**	888,000
Bank Production Loan, evidenced by demand note (payable in 24 equal quarterly installments) due October 1, 1976	**8,333,000**	10,000,000
United Oils, Limited		
9.35% Secured Bonds, Series A, due November 30, 1973 ($726,000 U.S.)†	**757,000**	1,133,000
8.10% Secured Bonds, Series B, due March 31, 1980 ($4,377,000 U.S.)†	**4,688,000**	4,842,000
Home Oil of Canada Limited		
Eurodollar Loan (currently 9½%) due May 1, 1977 ($2,932,000 U.S.)	**2,949,000**	—
Union Petroleum Corporation		
Bank Loan, due March 30, 1972 (renewed annually) ($1,875,000 U.S.)	**2,035,000**	2,155,000
Other ($45,000 U.S.)	**50,000**	167,000
	61,092,000	65,275,000
Less: current minimum maturities	**5,332,000**	5,496,000
	$55,760,000	$59,779,000

*Subject to monthly payments based on production from pledged properties.

†Repayable in monthly installments.

All U.S. issues are recorded on the balance sheet in Canadian dollars based on the exchange rate in effect at the date of receipt of the proceeds, with the exception of the 9.35% Secured Bonds, Series A, issued by United, which are stated at the rate of exchange in effect as at the date of acquisition of control of United.

The estimated amount of long term debt maturities and sinking fund requirements for the four years subsequent to 1972 are as follows: 1973—$6.5 million, 1974—$8.8 million, 1975—$7.0 million, 1976—$7.1 million.

6. Capital Stock

(i) Dividends

There are restrictions on the payment of dividends on the Class B shares and of dividends in excess of 25c per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the outstanding long term debt. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings at December 31, 1971.

(ii) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1971 for issuance upon the exercise, on or before April 30, 1980, of warrants to purchase 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share.

(iii) Options to Purchase Capital Stock

As at December 31, 1971, there were 20,847 Class A shares reserved for exercise of employee stock options. These options are exercisable at $20 per share and expire in 1980. The exercise price was equal to the market price of the shares at the granting date.

A summary of transactions relating to optioned shares is as follows:

Class A Shares	Officers	Other Employees	Total
Outstanding January 1, 1971	15,000	23,500	38,500
Exercised	15,000	2,653	17,653
Outstanding December 31, 1971	—	20,847	20,847

All options were granted under the Officers' and Key Employees' Share Option Plan under which 250,000 Class A shares were set aside for issuance on the exercise of stock options. At December 31, 1971, 150,500 Class A shares were reserved for options that may be granted under the plan which terminates February 28, 1979.

(iv) Shares Sold During the Year

During 1971, officers subscribed for 15,000 Class A shares of the Company pursuant to share option agreements. Notes totalling $300,000, the terms of which are described below, were received from the optionees in payment of their subscriptions. An additional 2,653 Class A shares were issued to employees for $53,000 cash.

On November 2, 1971 two subsidiaries sold 275,506 Class B shares of the Company for $33.10 per share. In the consolidated statements, the difference of $6,123,000 between the net proceeds and the cost of such shares has been credited to capital stock.

(v) Share Purchase Notes

At December 31, 1971, non-interest bearing notes totalling $720,000 were outstanding in payment of 36,000 Class A shares of the Company subscribed for by officers pursuant to share option agreements. The notes, which are included on the balance sheet under miscellaneous other assets, are secured by the purchased shares. The notes are payable at the earlier of the date of termination of employment of the optionee under certain circumstances, the date of sale of the shares acquired by the optionee, or ten years from the subscription date.

7. Contingent Liabilities and Commitments

The Company has guaranteed the indebtedness and certain other obligations of associated companies to the extent of approximately $7,100,000.

8. Remuneration of Directors and Officers

During 1971 the Company and its subsidiaries paid remuneration of $83,000 to the Company's twenty-two directors in their capacity as directors, and remuneration of $465,000 to the Company's thirteen officers in their capacity as officers. Four of the officers were also directors of the Company.

9. Subsequent Events

i) On February 1, 1972, the Company sold to its underwriters $25,000,000 principal amount of 5½% Convertible Subordinated Debentures, due February 1, 1992, for an aggregate consideration of $24,500,000. These debentures are convertible into Class A shares of the Company at a price of $38.00 per share, for which 657,895 Class A shares have been reserved for issuance upon the exercise of the rights of conversion. The proceeds of this issue have been used to repay the Company's bank loans and for general corporate purposes.

ii) Subsequent to December 31, 1971, the Company sold 200,000 shares of TransCanada PipeLines Limited for $7,930,000.

A Ten Year Review / 1962 - 1971

		1971	1970
Earnings and Net Flow of Funds	Gross Revenue	$ 34,252,000	30,008,00
	Net Earnings (before Extraordinary Items)	$ 5,237,000	4,057,00
	Per Share	$ .73	.58
	Extraordinary Items	$ 838,000	1,390,00
	Per Share	$ .12	.20
	Net Flow of Funds from Operations	$ 15,964,000	14,005,00
	Per Share	$ 2.24	1.99
Balance Sheet	Working Capital (Deficiency)	$ (22,096,000)	(28,304,00
	Investment in other Companies	$ 76,949,000	79,692,00
	Property, Plant and Equipment—Net	$171,856,000	164,621,00
	Long Term Debt (Less Current Maturities)	$ 55,760,000	59,779,00
	Deferred Income Taxes	$ 27,575,000	25,545,00
	Capital Stock	$104,377,000	94,919,00
	Retained Earnings	$ 39,026,000	36,557,00
Exploration and Development	Exploration Expenditures	$ 9,194,000	14,525,00
	Development Expenditures	$ 4,265,000	3,253,00
	Gross Exploration Acreage	10,294,000	9,334,00
	Net Exploration Acreage	4,566,000	4,852,00
Drilling Activity	Gross Working Interest Wells Drilled	54	14
	Net Oil Wells	4	0
	Net Gas Wells	5	2
	Net Dry Wells	12	4
	(Excludes wells drilled by others under farmout agreements)		
Proven Developed Reserves	Crude Oil and Natural Gas Liquids—barrels	149,699,000	154,957,00
	Natural Gas—thousand cubic feet	710,767,000	800,233,00
	Sulphur—long tons (*not available)	1,437,000	1,485,00
Production and Pipeline Operations	Crude Oil and Natural Gas Liquids Production—barrels per day	21,135	18,99
	Natural Gas Sales—thousand cubic feet per day	92,879	89,24
	Sulphur Sales—long tons	45,623	39,44
	Cremona Pipe Line Division		
	Daily Average Gatherings—barrels	38,854	39,67
	Federated Pipe Lines Ltd.—(50% owned)		
	Daily Average Gatherings—barrels	211,701	184,17
Shares and Dividends	Dividends Declared Per Class A Share	$ .50	.50
	Dividends Declared Per Class B Share	$ .50	.50
	Number of Shares Outstanding—end of year	7,358,000	7,065,00
	Number of Shareholders	12,300	15,30

NOTES: (1) Earnings per share are calculated on the basis of average number of shares outstanding during the year.

1969	1968	1967	1966	1965	1964	1963	1962
27,709,000	25,272,000	24,092,000	23,410,000	22,075,000	19,438,000	14,472,000	13,032,000
5,003,000	4,320,000	4,715,000	5,331,000	5,638,000	4,140,000	2,248,000	1,266,000
.73	.81	.93	1.07	1.15	.87	.52	.28
(466,000)	6,343,000	403,000	–	516,000	1,012,000	1,034,000	–
(.07)	1.18	.08	–	.11	.21	.24	–
12,390,000	11,610,000	11,130,000	10,838,000	11,273,000	9,718,000	6,941,000	5,399,000
1.81	2.16	2.20	2.17	2.30	2.04	1.60	1.19
18,956,000)	(42,315,000)	(3,529,000)	4,762,000	(6,945,000)	3,574,000	(1,001,000)	(3,317,000)
03,861,000	93,987,000	64,814,000	52,670,000	50,590,000	36,545,000	34,108,000	41,330,000
54,456,000	120,681,000	106,798,000	101,401,000	92,204,000	85,716,000	64,559,000	60,744,000
89,009,000	64,092,000	90,333,000	86,624,000	69,941,000	67,287,000	47,069,000	52,430,000
23,086,000	20,801,000	18,415,000	16,309,000	14,269,000	11,797,000	9,339,000	7,956,000
93,732,000	54,758,000	35,092,000	34,352,000	32,962,000	32,186,000	29,796,000	24,854,000
34,627,000	33,592,000	25,804,000	23,165,000	20,295,000	16,558,000	12,714,000	15,335,000
31,564,000	15,282,000	6,597,000	6,387,000	5,296,000	3,495,000	2,933,000	2,045,000
3,887,000	1,621,000	2,434,000	4,032,000	2,876,000	3,259,000	3,528,000	2,226,000
9,176,000	8,319,000	6,872,000	6,236,000	5,762,000	5,759,000	4,712,000	3,561,000
4,577,000	4,640,000	3,701,000	3,118,000	2,382,000	2,035,000	1,408,000	1,007,000
38	39	49	54	78	52	68	65
1	0	8	3	11	16	8	9
4	4	3	6	3	1	3	2
11	15	13	11	21	8	9	10
55,586,000	156,923,000	152,885,000	151,625,000	152,489,000	114,937,000	84,419,000	71,725,000
88,258,000	779,859,000	698,697,000	721,606,000	677,001,000	601,833,000	555,300,000	506,660,000
1,454,000	1,493,000	1,636,000	1,241,000	*	*	*	*
16,666	15,757	14,280	13,400	12,809	11,623	10,042	9,402
69,945	64,641	61,033	56,770	61,823	59,269	52,497	43,136
31,947	38,182	42,182	20,343	14,714	19,913	6,569	4,392
38,267	39,268	37,193	36,265	36,348	33,496	31,862	29,260
160,408	156,001	140,235	128,462	110,719	82,252	67,727	58,918
.50	.50	.50	.50	.50	.35	.25	.25
.50	.50	.50	.50	.50	.35	.25	–
7,002,000	6,102,000	5,091,000	5,046,000	4,936,000	4,842,000	4,565,000	4,548,000
12,600	13,200	13,000	13,700	13,900	12,800	12,800	13,000

(2) Above data incorporates retroactive adjustments.

Investments

The Company held the following investments in marketable securities at December 31, 1971:

	Number of Shares	Cost	Quoted Market Value December 31, 1971
Atlantic Richfield Company			
—Common shares	422,936	$49,320,000	$30,519,000
—$2.80 Convertible preferred shares	53,440	3,487,000	3,052,000
TransCanada PipeLines Limited			
—Common shares	700,000*	17,745,000	24,850,000
Other		2,608,000	3,930,000
		$73,160,000	$62,351,000

*Subsequent to December 31, 1971, the Company sold 200,000 shares, reducing its holdings in TransCanada PipeLines Limited to 500,000 shares.

A brief synopsis of the financial and operating results of these two companies follows:

TRANSCANADA PIPELINES LIMITED

Net income amounted to $16,651,000 or $2.01 per share in 1971 after provision for dividends on preferred shares, compared with $14,573,000 or $1.76 per share in 1970 as restated.

Operating revenues increased 13% to $318,200,000 in 1971 from $281,485,000 in 1970. The volume of gas transported in 1971 increased to 831 Bcf, an increase of 13% from 738 Bcf in 1970.

During 1971, the company negotiated with its major Ontario distribution customers a rate increase of 2.1c per Mcf. to commence January 1, 1972 and to apply until a final National Energy Board decision in TransCanada's current rate proceedings.

The 1971 construction program, which included construction of 210 miles of pipeline and the addition of 3,165 compression horsepower, was completed at a cost of $69,296,000. Subject to the receipt of acceptable regulatory approvals for the remainder of its proposed 1972-1973 expansion program estimated at approximately $600,000,000, TransCanada plans to add 886 miles of new pipeline in 1972 and 586 miles in 1973 together with a total of 121,500 horsepower of new compression equipment.

In January, 1972, the National Energy Board permitted TransCanada to earn a rate of 9% on its rate base and TransCanada will be submitting revised rate schedules for approval of the National Energy Board.

ATLANTIC RICHFIELD COMPANY

Net earnings before extraordinary items rose slightly to $210,533,000 or $3.73 per share in 1971 from $209,504,000 or $3.70 per share in 1970.

Sales and other operating revenue increased 6% to $3,658,437,000 in 1971 from $3,444,872,000 in 1970. Worldwide sales of refined petroleum products averaged 871,200 barrels per day compared with a daily average of 872,300 in 1970.

Production of North American crude oil and natural gas liquids averaged 433,200 barrels per day, a 2% decrease from the 441,700 barrels per day produced in 1970 while natural gas sales increased 2% to 2,252 million cubic feet a day. Petrochemical product sales averaged 6,017 tons daily in 1971, a gain of 17% from depressed 1970 volumes.

Home Oil Company Limited

Head Office

304 Sixth Avenue S.W.,
Calgary 1, Alberta

Auditors

Riddell, Stead & Co.

Solicitors

Macleod Dixon
Calgary, Alberta

Dunnington, Bartholow & Miller,
New York, New York

Transfer Agents

Crown Trust Company
The Chase Manhattan Bank

Registrars

Crown Trust Company
The Canadian Bank of Commerce Trust Company

Listings

Toronto Stock Exchange
Vancouver Stock Exchange
Calgary Stock Exchange
Montreal Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

Active Subsidiary Companies

Home Oil of Canada Limited
Home Oil Company of Canada
Home Oil Malta Limited
Home Oil Italiana S.p.A.
Union Petroleum Corporation
Foothills Oil and Gas Company, Limited
Coastal Oils Limited
United Oils, Limited

50% Owned Companies

Federated Pipe Lines Ltd.
Crownco Holdings Limited

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